

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20278-0001

PERMANENT ADDITION OF USPS CONNECT
LOCAL MAIL TO THE MARKET DOMINANT
PRODUCT LIST

Docket No. MC2023-12

**NOTICE OF UNITED STATES POSTAL SERVICE OF FILING
ERRATA**
(December 6, 2022)

The United States Postal Service hereby gives notice that it is today filing errata to its response to Chairman's Information Request No. 1, which was originally filed by the Postal Service on December 5, 2022.

In its responses to questions 1.a, 1.b.iii, and 8, the Postal Service directed the Commission to responses that it filed under seal in a non-public annex. In its response from December 5, 2022, the Postal Service incorrectly referred to the non-public annex as "USPS-MC2023-1-NP1." The correct title for the non-public annex is "USPS-MC2023-12-NP1."

The corrected response to Chairman's Information Request No. 1 is attached and should replace the USPS response that was filed on December 5, 2022.

Respectfully submitted,
UNITED STATES POSTAL SERVICE

By its attorneys:

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December 6, 2022

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Docket No. MC2023-12

**RESPONSE OF THE UNITED STATES POSTAL SERVICE TO
CHAIRMAN'S INFORMATION REQUEST NO. 1**
(December 5, 2022)

The Postal Service hereby responds to Chairman's Information Request No. 1, issued on November 28, 2022. Each question is stated verbatim and is followed by the response.

Respectfully submitted,
UNITED STATES POSTAL SERVICE

By its attorneys:

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Chief Counsel, Pricing & Product Support

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1. In Docket No. MT2022-1, the Postal Service stated that “[a]ttributable costs for USPS Connect Local Mail are estimated at \$2.03 per piece.”¹ In the Revised Request, the Postal Service indicated that though it assessed the attributable cost for USPS Connect Local Mail at \$2.02 per piece “from Q2 and Q3,” it assessed the per piece cost from Q4 at \$2.08. See Revised Request at 6 n.5. The Postal Service indicated that USPS Connect Local Mail will have “an estimated attributable cost of \$2.08 per piece.” Revised Request, Attachment D at 3.
 - a. Please provide the model and calculations used to develop the estimated cost per piece of \$2.08 for USPS Connect Local Mail that is indicated in the Revised Request. In doing so, please explain any assumptions made in developing this estimated cost. Please also specify what caused the estimation of attributable cost to increase.
 - b. Please refer to the “Envelope Purchases” category in Table 1 on page 6 of the Revised Request. See Revised Request at 6.
 - i. Please provide the calculations and data sources underlying the report that the “Individual Costs” of “Envelope Purchases” are \$0.14 and that the “# of Items” of “Envelope Purchases” are 2,250,000.
 - ii. Please confirm that these envelopes are particular to USPS Connect Local Mail and are not used by any other Postal Service offering. If not confirmed, please explain.
 - iii. Please confirm that envelope purchases are a unit cost. If confirmed, please describe in detail the impact of envelope purchases on the estimated cost per piece calculations of \$2.08. Please also specify whether, in its calculations, the Postal Service categorizes envelope purchases as a “packaging” cost or another type of cost. If not confirmed, please explain.

RESPONSE:

- a. This information has been filed under seal in USPS-MC2023-12-NP1.
- b.i. Confirmed. The Postal Service paid invoices from an envelope vendor for USPS Connect Local Mail invoices of \$313,008.89 for USPS Connect Local Mail envelopes in February and March 2022. In June 2022, the Postal Service

¹ United States Postal Service Notice of Market Test of Experimental Product – USPS Connect Local Mail, November 10, 2021, at 2 (Docket No. MT2022-1 Notice).

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ordered an additional 60,000 envelopes for a large customer from this vendor and was charged \$8,400. The \$0.14 per envelope estimate was based on the per envelope cost that resulted from dividing \$8,400 by 60,000 envelopes. The \$0.14 per envelope cost was then applied to the \$313,008.89 in earlier invoices to get the total volume estimate of 2,250,000.

b.ii. Confirmed.

b.iii. This information has been filed under seal in USPS-MC2023-12-NP1.

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2. The Postal Service reports that 373 pieces of USPS Connect Local Mail were sold during the first two quarters of the market test. See Revised Request, Attachment B. Please explain why the Postal Service's calculation of the total cost of envelope purchases during the first two quarters of the USPS Connect Local Mail market test used 2,250,000 (reported as the "# of Items") rather than using the actual number of pieces sold during that timeframe. See Revised Request at 6.

RESPONSE:

The Postal Service used 2,250,000 envelopes as the basis for the packaging cost calculation rather than the packaging costs of the 373 pieces sold because 2,250,000 envelopes were used to stock participating Post Offices to prepare them for customers purchasing Connect Local Mail through Click-N-Ship. Stocking these envelopes at participating Post Offices was necessary before customers could access the product and is therefore a better basis for the packaging cost calculation.

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3. The Postal Service states that it “projects that USPS Connect™ Local Mail could raise as much as \$8.5 million per year in revenue by Fiscal Year 2026, leading to a contribution of over \$2 million.” Revised Request, Attachment D at 3. The Postal Service explains that it “arrived at this estimate by modelling USPS Connect™ Local Mail growth trends after the sales volume displayed by USPS Connect™ Local packages during that offering’s introductory months and Every Door Direct Mail (EDDM) during its initial 3 years.” *Id.*, n.5.
- a. Please provide the calculations, data sources, assumptions, and model underlying the projection that USPS Connect Local Mail could raise as much as \$8.5 million per year in revenue by Fiscal Year 2026.
 - b. Please describe in detail the rationale behind using EDMM’s growth to estimate the growth projection for USPS Connect Local Mail. In the response, please detail the similarities and differences between the two offerings, including but not limited to features and the market for each offering. In the response, compare and contrast the types of customers (*e.g.*, industry, business size) using each offering.
 - c. Please describe in detail the rationale behind using USPS Connect Local packages growth to estimate the growth projection for USPS Connect Local Mail. In the response, please detail the similarities and differences between the two offerings, including but not limited to features and the market for each offering. In the response, compare and contrast the types of customers (*e.g.*, industry, business size) using each offering.

RESPONSE:

- a. The Postal Service acknowledges that exact volumes and revenues for Connect Local Mail are hard to project, since the extent of customer preference for the new product over currently existing options is unknown. The Postal Service is submitting an Excel spreadsheet (“ChIR 1, Q3 – CLM Forecast Model.xlsx”) along with this response to explain the projection. The model uses actual USPS Connect Local Mail FY22 data in combination with inputs and assumptions that were derived by analyzing volume behavior from recent USPS product launches. The subsequent sections further explain the rationale behind using Every Door Direct Mail and USPS Connect Local packages to inform the inputs and assumptions that were used to develop estimates for future volume, revenue, and contribution from FY23 – FY26.

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- b. Every Door Direct Mail (EDDM) was a new mail product offering launched in 2011. It was designed to make advertising through the mail more accessible and attractive for small and medium sized businesses. It provided simplified qualification and preparation associated with advertising to ease the burden on mailers, and it imposed restrictions on the volume and location of mail entered to minimize the acceptance and delivery burden on the Postal Service.

As the Postal Service stated in its Notice of Market Test of Experimental Product – USPS Connect Local Mail (Docket No. MT2022-1), USPS Connect Local Mail is designed to address the needs of businesses that send important documents locally with regular frequency. Currently, when these mailers wish to send documents for same-day or next-day arrival through the Postal Service, they are directed to use services that were designed for end-to-end mailing over longer distances than USPS Connect Local Mail, and that are priced higher than USPS Connect Local Mail as a result. The Postal Service therefore proposed USPS Connect Local Mail as an economical alternative for customers that mail close to their places of business.

Both EDDM and USPS Connect Local Mail are targeted at small- and medium-sized business that frequently send mail within a local geographic area. Although EDDM is designed for advertising in place of USPS Connect Local Mail's focus on document delivery, it still provides a useful reference for understanding the general growth curve of a new mail product offering. EDDM experienced a steep growth immediately after product launch, then experienced diminishing growth in the medium-term, and eventually reached maturity around Year 4 after product launch.

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The Postal Service believes a similar growth curve will apply to USPS Connect Local Mail as well.

- c. Although USPS Connect Local Mail focuses on documents, making it distinct from USPS Connect Local's package shipping service, both share the goal of offering improved access to the Postal Service's delivery network for local businesses as well as small- and medium-sized businesses. The Postal Service considers each product as important to the success of the other. Furthermore, both products leverage the Postal Service's unparalleled last-mile infrastructure to create economical new solutions for customers. For these reasons, and because the USPS Connect Local package shipping service was launched prior to the USPS Connect Local Mail offering, it provided a useful proxy for estimating short-term volume growth for USPS Connect Local Mail.

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4. Please refer to the quarterly reports of USPS Connect Local Mail revenue and volume for USPS Connect Local Mail. Revised Request, Attachment B. Please provide the revenue and volume for USPS Connect Local Mail by state for each quarter.

RESPONSE:

Please see the following table:

Connect Local First-Class Mail - By State

State	FY22 Q2		FY22 Q3		FY22 Q4	
	Volume	Revenue	Volume	Revenue	Volume	Revenue
Arizona	0	\$ -	0	\$ -	3	\$ 8.85
California	0	\$ -	135	\$ 398.25	45	\$ 132.75
Colorado	0	\$ -	0	\$ -	1	\$ 2.95
Florida	0	\$ -	16	\$ 47.20	40	\$ 118.00
Georgia	0	\$ -	4	\$ 11.80	9,863	\$ 29,095.85
Hawaii	0	\$ -	0	\$ -	2	\$ 5.90
Illinois	0	\$ -	0	\$ -	4	\$ 11.80
Kansas	0	\$ -	1	\$ 2.95	1	\$ 2.95
Kentucky	0	\$ -	0	\$ -	3	\$ 8.85
Louisiana	0	\$ -	0	\$ -	8	\$ 23.60
Maryland	0	\$ -	10	\$ 29.50	0	\$ -
Massachusetts	0	\$ -	0	\$ -	1	\$ 2.95
Michigan	0	\$ -	0	\$ -	2	\$ 5.90
Minnesota	0	\$ -	0	\$ -	2	\$ 5.90
Missouri	0	\$ -	0	\$ -	1	\$ 2.95
Nevada	0	\$ -	0	\$ -	1	\$ 2.95
New Jersey	6	\$ 17.70	91	\$ 268.45	4	\$ 11.80
New York	0	\$ -	1	\$ 2.95	10	\$ 29.50
North Carolina	0	\$ -	2	\$ 5.90	1	\$ 2.95
Pennsylvania	0	\$ -	2	\$ 5.90	13	\$ 38.35
South Carolina	0	\$ -	0	\$ -	1	\$ 2.95
Texas	59	\$ 174.05	44	\$ 129.80	7,248	\$ 21,381.60
Utah	0	\$ -	0	\$ -	3	\$ 8.85
Virginia	0	\$ -	1	\$ 2.95	0	\$ -
Washington	0	\$ -	1	\$ 2.95	5	\$ 14.75
TOTAL	65	\$ 191.75	308	\$ 908.60	17,262	\$ 50,922.90

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5. Please confirm that Click-N-Ship remains the only method for customers to access USPS Connect Local Mail. If not confirmed, please explain. See Revised Request at 2.

RESPONSE:

Not confirmed. The Postal Service developed an API application for Connect Local Mail and the USPS Connect Local packages offering for mailers who wanted to send larger quantities of USPS Connect Local Mail and USPS Connect Local package pieces per day and did not want to use Click-N-Ship to print out one mailing label at a time.

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6. Please identify how many unique Click-N-Ship customers utilized USPS Connect Local Mail and describe in detail whether the number of unique Click-N-Ship customers that utilized USPS Connect Local Mail increased as time went on in each quarter. Please provide quantitative support for this description and identify the metric(s) used. If quantitative support is unavailable, please so state, explain why it is unavailable, and provide qualitative analysis in support of the description.

RESPONSE:

Please see the following table:

Connect Local First-Class Mail - Customer Count (unique) by Quarter

Source: Qlik Dashboard

Quarter	Count
Q2 FY22 (January 2022 - March 2022)	14
Q3 FY22 (April 2022 - June 2022)	37
Q4 FY22 (July 2022 - September 2022)	72
Q1 FY23 (October 2022 - November 25th 2022)	42

Over the course of the market test, USPS Connect Local Mail generally attracted more new customers as each quarter progressed, subject to which locations were added during the quarter. These trends were caused by the phased roll-out of the product which ended in late September 2022 described in greater detail on the second page of the Revised Request. Growth was sometimes uneven in the event more popular locations were added followed by less popular locations. No new Connect Local Mail locations have been added since September, and the Postal Service is tracking the effect this has on the number of unique customers using the service during the first quarter of FY 2023.

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7. The Postal Service states that its explanation of the views of USPS Connect Local Mail users is "based upon Postal Service sales staff questionnaires and requests for feedback that have been gathered from USPS Connect™ Local Mail market test participants." Revised Request, Attachment D at 9, n.7.
- a. Please describe in detail the method used by the Postal Service to determine which customers would be targeted for questionnaires and feedback and specify the total number of customers that were targeted. In the response, please disaggregate the number of customers by type (e.g., physicians, financial institutions, etc.).
 - b. Please specify the total number of customers that ultimately provided their views on USPS Connect Local Mail. In the response, please disaggregate the number of customers by type (e.g., physicians, financial institutions, etc.).
 - c. Please provide the questionnaires and requests for feedback that were issued by the Postal Service and provide the underlying data received from users in response to these items.

RESPONSE:

- a. To clarify, the customer feedback that was presented in our refiling was obtained entirely from an in-depth interview conducted with four lead USPS Sales team members. The Sales team did not track individual customer responses, and therefore the Postal Service is not able to provide the total number of customers targeted or a disaggregation of customers by type. USPS Sales team members were selected for the interview because they had the most experience selling USPS Connect Local Mail and had been in conversation with the widest variety of industries using USPS Connect Local Mail.

The information we have provided, therefore, is entirely anecdotal but we believe is the best reflection of local businesses' response to the USPS Connect Local Mail offering. Given the limited number of USPS Connect Local Mail customers and our expected survey response rates, The Postal Service determined that it would have been unlikely to generate a statistically significant

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response rate from a traditional survey. A survey would also be insufficient to capture feedback from organizations who were solicited by our sales team but felt that the service would not meet their business needs.

- b. Views were aggregated by Sales team members, and this data is unavailable as a result.
- c. Not applicable, as USPS did not issue standardized questionnaires or requests for feedback to customers.

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8. Please see Attachment, filed under seal.

RESPONSE:

This information has been filed under seal in USPS-MC2023-12-NP1.